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TODAY

RAYMOND M. CHESELDINE resigned as executive vice president of the Bank Marketing Association; J. Douglas Adamson, a senior vice president of Bank One, Lafayette, Ind., succeeds him.... 2

WILLIAM H. SAYRE faces a busy year of reorganization as president of Robert Morris Associates and as executive vice president of Philadelphia-based Fidelcor Inc., which will merge with First Fidelity Bancorp., Newark, N.J....2

William H. Sayre

TORONTO DOMINION BANK has emerged as a leading distributor of commercial loans in terms of volume, according to the bank's competitors in the U.S. loan sales market.... 2

MANUFACTURERS HANOVER will follow Citicorp's lead as it plans to issue six million new shares of common stock on the domestic and international equity markets later this month.... 3

FORMER THRIFT REGULATOR Edwin J. Gray has accepted the No. 2 position at Chase Federal Savings and Loan Association, a $1.7 billion-asset thrift in Miami, the S&L's chairman confirmed.... 3

AS MERGERS INCREASE and baby boomers mature, age discrimination cases are on the rise, according to the Equal Opportunity Employment Commission.... 3

BANKING COMPANIES should consider the advantages of acquiring a failing thrift from the FSLIC, writes Timothy C. Naegele.... 4

CHEMICAL BANK'S public finance department in Los Angeles has hired Timothy J. Schaefer as vice president and manager of its western region.... 11

A BITTER TAKEOVER BATTLE may be brewing with Hugh F. Culverhouse's sweetened bid for the Miami-based Florida Commercial Banks Inc.... 12

PROFESSIONAL SKILLS outrank savoir faire when placing bankers in international posts, according to recruiters.... 16

COMPENSATION at Japanese financial firms is slowly improving.... 16

KEEPING CURRENT

Executive Changes.... 14

Flashbacks.... 4

In the News.... 3

Quote

Now wouldn't that be terrible if I did?

Karl Malden, actor and spokesman for American Express, commenting that he has never lost a travelers check or had one stolen [Page 1]

Unquote

Travelers Check Industry Rebounds

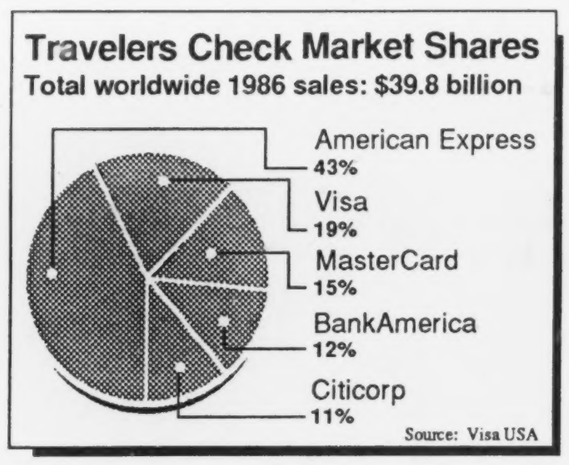
Surge in Tourism Provides Boost but Growth Remains Slow

By MICHAEL A. ROBINSON

Karl Malden was preparing for a weekend trip to San Diego recently, but he didn't want to leave the Los Angeles area without running one important errand. He had to go to the bank and buy $500 worth of travelers checks.

"It's true," says the true believer spokesman for American Express Co.'s Travelers Cheques. Mr. Malden never strays far from home without carrying some of the products he has been pushing for the past 15 years.

"If you take cash, it is so easy to lose it. Or if someone takes your wallet, they can take out the cash and throw the wallet away," explains Mr. Malden. "But it's just a little harder to get rid of a travelers check."



Pickpockets and purse snatchers are not the only ones who sometimes find it difficult to dispose of travelers checks. Last year, the $40 billion industry stagnated as Americans, concerned about terrorism and the fallout from the Chernobyl nuclear accident, stayed closer to home and purchased fewer travelers checks.

Now, with the crucial summer selling season drawing to a close on Labor Day, the industry seems to be rebounding. It has been fueled by a recovery in overseas travel and an influx of foreign visitors who are taking advantage of the weak dollar.

"We have seen an upswing in the travelers check market," says Vincent La Paglia, vice president director of paper products at Visa U.S.A. Inc., San

Strong: Page 6 ➳

An American Banker Special Report

Employee Stock Plans Playing A Bigger Role in Buyout Deals

By DAVID NEUSTADT

Second in a Series

NEW YORK — In the last few months, employee stock ownership plans have finally hit the corporate finance big time.

ESOPs, which until now have played a minor role in the leveraged buyout movement, are part of two multi-billion-dollar deals — the $2 billion sale of Avis Inc. by Wesray Capital Corp., and the $1.9 billion sale of 104 hospitals by the Hospital Corporation of America to HealthTrust Inc.

There are likely to be more such transactions. The Air Line Pilots Association, the union representing pilots at United Airlines, has proposed a $5 billion ESOP-financed buyout of 80% of the airline. A group of railroad employee unions has hired Drexel Burnham Lambert to help work on a plan to buy Southern Pacific Railroad from Santa Fe Southern Pacific Corp.

Drexel, the investment banker in the Hospital Corp. deal, and Goldman, Sachs & Co. say they plan to get more involved in transactions involving employee stock ownership plans.

ESOPs have been used to buy companies before, but in most cases they were small, closely held companies. These deals were driven by the tax benefits to the seller; taxes on the profits from the sale of stock to an ESOP can be deferred if the money is invested in other stocks and bonds. And when an estate sells to a stock ownership plan, 50% of the profits are tax exempt.

The new, large deals are driven by the tax advantages for the buyer — the ESOP. Employee stock ownership plans can borrow at a lower rate because lenders get a 50% tax deduction on interest income.

Payments of both principal and interest on stock ownership plan loans are tax deductible, as are dividends paid on shares held by an ESOP trust that have not yet been allocated to employees. Also, the usual limits on using net operating-loss carryforwards when a company changes hands don't apply if an ESOP purchases at least 50% of a company. In addition, employees sometimes make concessions in return for their stake in the company, and often improve productivity when they see themselves as owners.

The net result is that a stock ownership plan leveraged buyout will have a better cash flow, so an ESOP can afford to pay more than other potential buyers.

Despite that fact, until now most leveraged buyout firms have avoided using stock ownership plans for two reasons: They didn't want to share the equity, from which they get 35% to 45% or better annual returns, and they were afraid that the U.S. Department of Labor might block deals, as it did in one case involving an ESOP and other investors.

"The tax benefits from an ESOP are not enough to override the loss from sharing equity," says Jay Ahstrom, a vice president at First Boston Corp.

"The return on a straight leveraged buyout is higher than one with an ESOP, but the risk is also higher," says Malon Wilkus of American Capital Strategies, Bethesda, Md., an investment bank that is raising a $75 million fund to help unions put equity into ESOP-leveraged buyouts.

"If interest rates go up or there are other problems, the worker-owners are more likely to make changes to help solve problems than in a standard leveraged buyout," Mr. Wilkus says, "and that reduces the risk of default on the debt and reduces the risk for all investors."

Employee Stock: Page 10 ➳

Missouri Banks To Offer Advice, Underwrite Bonds

Special to the American Banker

ST. LOUIS — Missouri's state-chartered banks will get sweeping securities powers, including authorization to offer investment advice and underwrite corporate bonds, under a regulation announced Tuesday by the state Division of Finance.

But the banks cannot jump in until March 1, because of a moratorium imposed by Congress. "The moratorium will delay implementation of these powers, but we wanted to move forward to allow banks to plan for the future," said Thomas B. Fitzsimmons, the Missouri banking commissioner.

The state regulation goes beyond the categories of new business — also delayed by the moratorium — that the Federal Reserve Board has authorized

Missouri: Page 14 ➳

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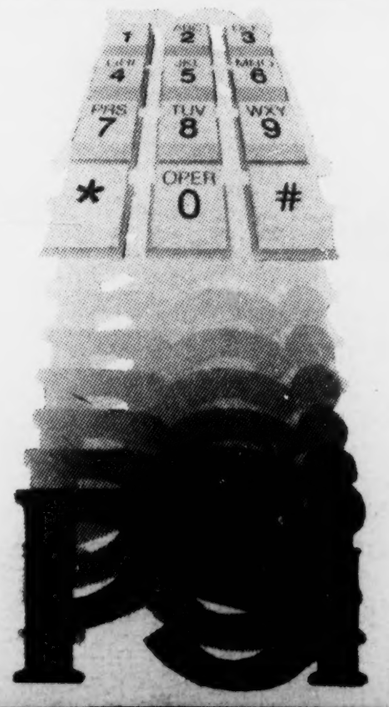

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Strong Tourism Buoys Travelers Check Industry

Continued from Page 1

Mateo, Calif. "It has increased as the travel market rebounded from last year's slump. All indications are this will be a good year for travelers check sales."

Despite the rebound in which sales are expected to rise by 5% to 10% this year, the industry as a whole faces the continued prospect of modest annual growth in both volume and profits, analysts and company executives say.

As a result, travelers check companies rely heavily on marketing, promotional gimmicks, and a steady stream of product enhancements as they scramble to snag domestic market share and step up the drive for overseas sales.

We have seen an upswing in the travelers check market. It has increased as the travel market rebounded from last year's slump. All indications are this will be a good year for travelers check sales.

— Vincent La Paglia
Vice President, Director of Paper Products
Visa U.S.A. Inc.

Number of Issuers Drops

Until 1980, only six major competitors shared the market. But the industry swelled with companies entering the field as interest rates soared in the early 1980s. At one point, the U.S. had nearly 40 issuers, but that number has dropped back to five major companies and a handful of smaller issuers, now that interest rates are once again stable and the value of float has diminished.

Last year, two major issuers admitted defeat and left the market altogether. Chase Manhattan Corp. sold its travelers check operations to Barclays Bank PLC, London; RepublicBank Corp., Dallas, turned its business over to BankAmerica Corp.

"People find it is not an easy business in which to make money," says Gordon M. de Lang, vice president worldwide marketing at BA Cheque Corp., a BankAmerica subsidiary. "When interest rates were high, people thought travelers checks provided a great funding opportunity. Now we have seen a shakeout."

The industry is divided into two main camps, firms that issue travelers checks and those that sell them. Issuers make money on float by investing the proceeds of travelers check sales until the consumers cash in the checks.

Sellers earn their money by charging consumers a commission, typically 1% of the value of the checks. Some high-volume sellers also share in part of the float from issuers.

Lower interest rates have reduced the value of float and made cost control a driving factor in the travelers check business, says T.R. Mock, BA Cheque's chief operating officer. Despite tough competition and a soft market, BA Cheque officials say, last year was the most profitable in the company's 60-year history. This was largely because the firm has cut costs by 20% in the last two years.

"The only way you can make money in this business is to be a low-cost provider of products and services," says Mr. Mock.

In July, BA Cheque unveiled several enhancements of its BankAmerica, MasterCard, and Visa checks. The improvements include free use of a travel information hotline and toll-free international telephone service for emergency refunds overseas.

The company also offered an optional travel protection and insurance plan called the WorldMoney SafeTravel Network, which cost $8.50 for 45 days of coverage. Services include embassy and consular referrals, passport replacement assistance, accidental death insurance, and emergency messages.

BankAmerica's announcement came just three weeks after American Express unwrapped new gift checks, which it will spend some $4 million to promote during the Christmas shopping season. American Express gift checks will be printed in $25, $50, and $100 denominations and will be sold through financial institutions that handle the company's travelers checks and all U.S. offices of American Express Travelers Services.

Although Visa and BankAmerica executives have dismissed the gift checks as little more than marketing razzle-dazzle surrounding what they call an old product, American Express officials say they expect to open a new niche.

"We are excited about the gift check," says Tom Cash, senior vice president for marketing at American Express travelers check division. "We think it will have a major impact in the marketplace. There is a $45 billion market in monetary gifts counting checks, cash, and gift certificates. That's not a small market."

Mr. Cash's enthusiasm for gift checks underscores American Express' upbeat outlook for the industry and the company's dominant position. American Express says travelers check sales in 1986 broke records worldwide, with total sales climbing 6.4% to $17.1 billion. Average checks outstanding climbed 12% to $3.3 billion.

The company says it took about $1 billion in business away from competitors each year from 1984 through 1986. Last year, American Express shifted its marketing theme to tell consumers to protect their vacation by buying its travelers checks rather than taking cash.

"If you look at travelers checks as a product, then the competition for travelers checks is cash," says Mr. Cash. "The growth of credit cards really has not had much of an impact on the travelers check market. People still take an awful lot of cash with them when they go on trips."

That provides travelers check companies with a prime marketing opportunity. Issuers, particularly American Express, frequently promote the safety and security of carrying traveler's checks instead of money.

If travelers checks are lost or stolen, advertisements frequently claim, they can be quickly replaced around the world. Although peace of mind may be important for people who have saved for a dream vacation, statistics show few customers lose their checks or have them stolen. Visa says only 0.3% of all customers file claims for checks.

Consider Mr. Malden, who as the spokesman for American Express has become the personification of its product. As an actor, Mr. Malden travels extensively, and he says he has never lost a travelers check or had one stolen.

"Now wouldn't that be terrible if I did?" he says.

But American Express won't have an easy time gaining market share. Both Visa and MasterCard have been in the market less than a decade but have become much tougher competitors, expanding their business at the expense of American Express. Together, they account for nearly a third of industry sales, observers say.

For instance, Visa entered the market in 1979 and within four years had total sales of $6.2 billion. But the company failed to live up to its own expectations. It had forecast sales of $8 billion by 1984, but two years later sales had reached only $7.5 billion.

Visa officials expect to get a major boost from their affiliation with the 1988 Olympic Games. The company spent millions to become an official sponsor of the games and in turn received the exclusive, worldwide rights to say its products are the official card, travelers check, and travel voucher of the Winter and Summer Games.

The company is releasing checks with Olympic rings in the center and expects to sell $10 million of them in the next year. The affiliation will be "very, very good for sales," says Visa's Mr. La Paglia.

But H. Spencer Nilson, publisher of *The Nilson Report,* an industry newsletter based in Santa Monica, Calif., says he doesn't think Visa's affiliation with the Olympics will help it take additional business from American Express.

"I don't think the Olympics will change it all that much," says Mr. Nilson. "Visa is already becoming well known. But it will take a long time before any body approaches American Express' dominant position."

BankAmerica's Mr. de Lang says that with the domestic market essentially saturated, his company is leaning more heavily on overseas sales, which account for nearly 60% of industry volume. Of particular interest is the Far East, which is experiencing a travel boom. Many countries there are relaxing foreign exchange restrictions.

Issuers often earn more money on overseas sales, says Mr. de Lang. That's because the longer the checks remain uncashed, the longer the issuer earns interest on the float. International travelers tend to hold onto their travelers checks longer, he says, which increases profit per unit.

"Perhaps there has been a bit of a decline in the United States," says Mr. de Lang, "but it has been offset by an increase overseas.

"Many people for a number of years have been predicting the demise of travelers checks. We haven't seen a lot of growth, but we haven't seen a lot of decline either. It is basically a stable business." ■

Longevity of Ad Role a Surprise to Malden

Even though he was a veteran of Broadway plays and Hollywood movies, Karl Malden says he was unprepared for what was to become the longest-running role of his celebrated career.

At a time when he was best known for the police series "The Streets of San Francisco," Mr. Malden performed in his first television commercial for American Express travelers checks.

"To be honest with you, I thought I was going to do it for a year and that was going to be the end of it," Mr. Malden recalls. "Here it is 15 years later. I am very comfortable doing what I am doing."

Mr. Malden began his professional acting career in 1938 with a supporting role in the play "Golden Boy." In 1951 he won an Oscar for "A Streetcar Named Desire." He also won an Emmy for the television production "Fatal Vision." But now he is best known as the spokesman for American Express.

"I spent 20 years in New York doing the theater," Mr. Malden says. "I spent 20 years in Los Angeles doing film. Now in the last 10 years I have become a commercial actor. I do commercials."

Mr. Malden says he isn't bitter that his acting roles have been overshadowed by the television commercials in which he delivers the famous line: "American Express travelers checks: Don't leave home without them."

I spent 20 years in Los Angeles doing film. Now in the last 10 years I have become a commercial actor. I do commercials.

— Karl Malden

"You come into people's homes two or three times a week and they think you are the establishment," he says. "I only advertise the travelers checks but people come up to me and say, 'I have my gold card, have you got your gold card?' I've been doing it so long I have become the voice of American Express."

And a particularly effective voice as well. In 1976, Mr. Malden became the first winner of *Advertising Age* magazine's Star Presenter of the Year award. He has received offers to represent other products but has declined, even though he does not have an exclusivity agreement with American Express.

Even in a casual conversation, Mr. Malden seems adept at delivering the American Express message. In a recent telephone interview with the *American Banker,* Mr. Malden turned the table on the reporter by demanding to know which brand of travelers check the reporter carries.

"Tell me the truth now," he demanded in a tone that Lieut. Mike Stone might have used to pry information out of a suspect on "The Streets of San Francisco."

"Karl Malden does a very good job as a spokesman for that company," says Vincent La Paglia, vice president and director of paper products at Visa U.S.A., San Mateo, Calif. "American Express is a good marketing company."

Mr. Malden says he doesn't own any stock in the company but faithfully uses its travelers checks on personal trips and when on location for motion pictures and television movies.

"It is the only one I use," he says. "I am honest about that."

— Michael A. Robinson